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Reftel: (A) Buenos Aires 1277
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1. (SBU) Summary. Argentine civil aviation authorities are slowly working the transition from military to civilian control of Argentine civil aviation with support from ICAO and the Mitre Corporation, and the GoA hopes to sign a new technical assistance agreement soon with the FAA. The profitability of U.S. air carriers serving Argentina is being squeezed by still-high fuel costs and slackening demand for travel, but American and Delta will nevertheless soon be adding direct flights between Argentina and New York. Flag carrier Aerolineas Argentinas's financial and operational woes continue, and Ezeiza International Airport expansion plans are being delayed due to increased financial costs. End summary.

2. (SBU) Econoff met September 25 with Alejandro Orchansky, Vice President of the GOA's airports regulator (ORSNA) and senior advisor to the civil aviation authority (ANAC - National Civil Aviation Administration). Econoff met September 29 with the country managers of the four U.S. passenger carriers that operate in Argentina, American, Continental, Delta, and United. Econoffs also met the U.S.-based Sabre computer reservations system representative on September 30, and the City of Buenos Aires Tourism minister Hernan Lombardi on October 7.

Military to civilian transition: still needs more time

3. (SBU) As reported Ref B, the GOA's full transition from military to civilian control of civil aviation continues at a very slow pace. (The GOA created ANAC, the National Civil Aviation Agency, in March 2007.) Alejandro Orchansky told Emboff that ANAC is still a "shell of an organization," and a full transition is still "a few more years away." ANAC still has "almost no budget" and little legal or operational authority. Orchansky confirmed that the GOA Air Force's Air Regions Command (CRA) continues to exercise de facto control of most, and certainly the most important, areas of civil aviation. Orchansky said that one of the most contentious matters remains how

to deal with the labor aspect of any transition. Presently, about 80% of CRA's 6000-odd employees are military personnel, generally with much lower salaries than any future ANAC civilian workers would get. Unresolved questions include: will these CRA military personnel be hired by ANAC, and if so, at what salary? Would they be retired from the military first, or be transferred to ANAC? Equally important, according to Orchansky: will civilian air traffic controllers be allowed to strike, something the current military controllers are not allowed to do (although they have exercised "slowdowns" in the past)?

14. (SBU) Orchansky confirmed that the International Civil Aviation Organization (ICAO) is providing assistance to support the GOA's transition from military to civilian control of civil aviation. He said that one task in particular that ICAO will help with is in identifying which CRA military workers are qualified to be hired by ANAC, and which are not. Orchansky acknowledged that this will be a very sensitive task politically, and in the end will have to be a political decision made by ANAC. Orchansky also confirmed that U.S.-based Mitre Corporation also continues to be involved in assisting the GOA in its transition efforts, but said that its role will be "further down in the transition process," but did not elaborate.

Proposed MOU with FAA on technical assistance

15. (SBU) The U.S. Federal Aviation Administration (FAA) and ANAC have been discussing the possibility of signing a new technical assistance agreement for FAA assistance with the GOA's transition

BUENOS AIR 00001409 002 OF 004

from military to civilian control of civil aviation, and aviation safety oversight. After the FAA upgraded the GOA in 2005 to Category I under the International Aviation Safety Assessment Category (deeming GOA's civil aviation authority to license and oversee air carriers in accordance with ICAO aviation safety standards), the GOA engaged the services of the FAA to receive assistance in aviation safety oversight. From 2002-2007, the CRA received FAA technical assistance in the areas of operations, airworthiness, and aviation safety oversight. This contract was terminated in 2007.

16. (SBU) FAA presented ANAC with a draft of a new agreement several months ago. ANAC head Rodolfo Gabrielli and Alejandro Orchansky were in FAA/Washington and Miami in May 2008 where they discussed this MOU. Orchansky said that ANAC is still "very interested" in FAA assistance in the transition from military to civilian control and aviation safety. He cited the usual "very slow bureaucracy" of the GOA for the delay in the GOA signing the MOU, but said that he expected this to be signed soon.

U.S. carriers squeezed, but still adding flights

17. (SBU) U.S. air carrier reps said that, with fuel prices still historically high (albeit lower in recent weeks), local inflation running at over 20%, and slowing economies in Argentina and the United States affecting ticket sales, most of them are feeling the strain in recent months. At the same time, American and Delta reps confirmed they are taking a long-term view of market development and are planning to add new direct flights to New York-JFK Airport in December. American already flies to JFK daily, and will add five more flights per week. Delta will fly five new flights to JFK, in addition to their daily flights to Atlanta. In early September, American terminated its daily direct flight to Chicago, which had begun in December 2007 amidst great fanfare, due to high fuel prices.

Aerolineas Argentinas woes continue

18. (SBU) Argentine aviation players contend that the financial and

operational problems of newly renationalized Aerolineas Argentinas (AR) and Austral continue - and will likely worsen (ref A). In the wake of the July 17 renationalization of the carriers, initial estimates foresaw monthly losses of around \$50 million (or \$600 million annually, roughly 1% of 2008 primary expenditures). GOA officials, media reports, and U.S. carrier reps now estimate that losses could increase further, in the range of \$1 billion annually, and with no corresponding improvement in service. (Buenos Aires Tourism Minister Lombardi told Embassy Econ and Commercial officers that he believes AR will go bankrupt within the next year.) Of the estimated \$900 million debt that AR is carrying, Embassy contacts indicate that AR owes around \$200 million to private airports operator AA2000, \$17 million to U.S.-based Sabre for its computer reservations system, and undisclosed amounts to the Amadeus e-travel management company and to GE Commercial Aviation Services for aircraft leases. Delta said that his company had suspended its aircraft maintenance agreement with AR pending resolution of outstanding payments. American said that they will no longer assist AR to carry its passengers on overbooked flights unless they pay cash. American said that due to non-payment of dues, AR several years ago lost the use of the International Air Transport Association (IATA) clearing house, used by the world's airlines and airline-associated companies to settle their inter-company billings. They noted that this limits the ability of some Argentine carriers and hotels to book additional tourism-related business. Septel will analyze the ongoing AR and Austral renationalization process in light of recently-released (and widely divergent) assessed values of the companies by the GOA's Valuation Tribunal and Credit Suisse, the latter hired by AR's owners.

BUENOS AIR 00001409 003 OF 004

Ezeiza Airport no match for regional airports

¶9. (SBU) U.S. carrier reps told Emboff that they were "extremely impressed" with the quality of the new airport in Lima, and that Santiago and Lima have the "best airports in Latin America." They compared them with the "pitiful" quality of Argentina's Ezeiza airport, which they said was among the "worst" in Latin America - congested, poorly run, and poorly built. They also noted again how short-staffed the airport's police and immigration staffs are, which negatively affect their passengers' arrival and departure waits.

Problems with airports operator

¶10. (SBU) Carrier reps again complained of the high costs, poor service, and arbitrary decisions of Argentina's airports operator AA2000. These reps also said that AA2000's highly publicized, \$500 million Ezeiza airport expansion plans are now on hold, or at least will be delayed, due to the worsening financial outlook. They said that local banks had recently increased the interest rates on the U.S. dollar loans for the project. These reps said that the airport expansion delay will affect them as well: given Ezeiza's already congested status, and with plans of American, Delta, Lufthansa, and South African Air, among others, to increase flights into and out of Buenos Aires, congestion will likely worsen.

U.S. carriers disappointed by recent GOA court ruling

¶11. (SBU) On August 25, the GOA Supreme Court upheld a controversial lower court ruling that mandated carriers to pay higher rates for airport services for international flights. U.S. reps told EconOff that they were "extremely disappointed" with the court ruling.

¶12. (SBU) In early 2002, in the wake of Argentina's economic crisis and ending its one-to-one peso-dollar link, the GOA Congress passed a law requiring that public service tariffs formerly denominated in dollars, including airport user fees, be paid in depreciated pesos, which in effect decreased these charges by about one-third. Following this action, President Duhalde issued a decree which

superseded that law and required that airport user charges for international flights -- for landing, parking, and air traffic control at Ezeiza Airport -- be paid in dollars, or about three times the amount had they been paid in the equivalent amount of pesos. Several airlines challenged the constitutionality of the decree in Argentine courts, with different results. Aerolineas Argentinas (AR) won an injunction against this measure, and to this day still pays airport charges at discounted peso rates. U.S.-based and other foreign carriers sought unsuccessfully the same relief in different Argentine courts. As a result, since September 2002, AR has been paying user charges at Ezeiza roughly one-third of what U.S. carriers pay for the same services. Four U.S. carriers filed complaints with the U.S. Department of Transportation, arguing that the discrepancy in charges put the GOA in violation of the 1985 bilateral air transport services agreement, which states that "airlines not be required to pay charges higher than those paid by the airlines of the other party." These carriers also argued that it constituted an "unreasonable discriminatory practice against" U.S. carriers. The DOT agreed and imposed a countermeasure: AR was required to deposit in an escrow account in the United States the difference -- for each international flights landing at Ezeiza -- between the user fee it pays and the fee that U.S. carriers pay. Today, this accumulated escrow account amounts to about \$5 million.

¶13. (SBU) With the legal question surrounding this decree now settled, the remaining unresolved issue is if or when the GOA will ever discontinue AR's effective advantage it enjoys over its international competitors.

BUENOS AIR 00001409 004 OF 004

GOA pleased with LAN's recent expansion

¶14. (SBU) Orchansky said that the GOA is "much more satisfied" with Chile-based LAN airlines in recent months. (LAN entered the Argentine domestic market in 2005, and their experience here has been difficult at times, with LAN and the GOA often accusing each other of unmet promises. The GOA says that LAN promised more planes and routes than so far realized; LAN says that below-market fares and unrealized tax and fuel rebates has stifled its desire/ability to expand services.) Orchansky said that the Secretary of Transportation was pleased that LAN has recently added new routes and planes to Neuquen City, Rio Gallegos, and San Juan. He acknowledged that GOA-sanctioned fare increases of almost 40% in recent months has made LAN expansion easier.

Uruguayan flag carrier Pluna competing with local carriers

¶15. (SBU) U.S. air carrier reps praised the "good marketing strategy" of Uruguayan flag carrier Pluna, and its decision to focus on the regional market, including Argentina, after it cancelled service to Madrid in September and put off expansion to other long-distance markets. (Pluna is 75% owned and managed by Leadgate Investments, a consortium of mostly U.S. investors, and 25% owned by the GOU.) In recent months, Pluna purchased several new Canadian-built Bombardier CRJ900s, and is moving to capture the potentially rich market of bringing Argentine travelers from the interior of Argentina who seek to go to Europe and the United States, and want to avoid the congestion, delays, and thefts of an intermediate stop at Ezeiza airport. From Montevideo, where the Carrasco airport is nearing completion of a new terminal, long-haul carriers such as American Airlines, Iberia, and Air France can then take these passengers to the United States and Europe. (NOTE: Embassy Montevideo reports that Pluna's financial losses and subsequent termination of its loss-making Madrid route prompted an ongoing dispute with GOU representatives on the board and labor unions, who oppose the move because of workforce implications and political sensitivity. Airline industry observers in Uruguay have suggested that the GOU needs to choose whether Pluna will remain privately managed in the image of LAN or if the government exerts more control, as is the case with Aerolineas Argentinas. At this

point, it appears likely the LAN model will win out. END NOTE.)

WAYNE